

CHAPTER 1

INTRODUCTION

PURPOSE

1.1 The standards and guidance contained in this document, often referred to as generally accepted government auditing standards (GAGAS), are intended for use by government auditors¹ to ensure that they maintain integrity, objectivity, and independence in planning, conducting, and reporting their work, and are to be followed by auditors and audit organizations when required by law, regulation, contract, agreement, or policy.² The work performed in accordance with GAGAS is referred to as audits and attestation engagements. This work, which is described in this chapter and more fully in chapter 2, includes financial audits, attestation engagements, and performance audits. Users of government audits and attestation engagements that are performed in accordance with GAGAS should have confidence that the work is objective and credible.

1.2 The standards and guidance in this document are for audits and attestation engagements of government entities, programs,³ activities, and services, and of government assistance administered by contractors, nonprofit entities, and other nongovernment entities. Adherence to GAGAS can help ensure that audits and attestation engagements provide credibility to the information reported by or obtained from management through objectively acquiring and evaluating evidence. When auditors

¹This document addresses the standards that should be used by the individuals conducting the broad array of work that is described more fully in chapter 2. Accordingly, the focus of this document is not on the wide variety of titles that are used by individuals conducting and reporting on this work, but instead the nature of the work that is being performed. The term “auditor” throughout this document includes individuals who may be titled auditor, analyst, evaluator, or a similar position description.

² Requirements in GAGAS are identified by statements that include the word “should.” Auditors are expected to comply with these requirements if they apply to the type of work being performed. Auditors are strongly encouraged to comply with the guidance provided by GAGAS.

³Henceforth, the term “program” will be used in this document to include government entities, services, and activities.

perform their work in this manner and comply with GAGAS in reporting the results, their work can lead to improved government management, decision-making, and oversight, and can assist in fulfilling the government's duty to be accountable to the public. GAGAS pertain to auditors' professional qualifications and the quality of their work, the performance of field work, and the characteristics of meaningful audit reporting.

1.3 This chapter describes the applications of GAGAS by auditors and audit organizations. This chapter also describes the concept of accountability for public resources and discusses the responsibilities of managers of government programs, auditors, and audit organizations in the audit process.

APPLICABILITY

1.4 GAGAS are intended to be followed in performing audits and attestation engagements. A number of statutes and other mandates require that auditors follow GAGAS. Where a statute or other mandate does not exist, auditors will find it useful to use GAGAS in work regarding the use of government funds. If auditors hold themselves out as following GAGAS, regardless of whether they are required to follow such standards, they need to justify any departures from them.

1.5 The following laws, regulations, or guidelines require use of GAGAS:

a. The Inspector General Act of 1978, as amended, 5 U.S.C. App. (2000) requires that the statutorily-appointed federal inspectors general comply with GAGAS for audits of federal entities, programs, activities, and functions. The act further states that the inspectors general should take appropriate steps to ensure that any work performed by nonfederal auditors complies with GAGAS.

b. The Chief Financial Officers Act of 1990 (Public Law 101-576), as expanded by the Government Management Reform Act of 1994 (Public Law 103-356), requires that GAGAS be followed in audits of federal departments' and agencies' financial statements.

c. The Single Audit Act Amendments of 1996 (Public Law 104-156) require that GAGAS be followed in audits of state and local governments and nonprofit entities that receive federal financial assistance. OMB Circular A-133, "Audits of States, Local Governments, and Non-profit Organizations," which provides the governmentwide guidelines and policies on performing audits to comply with the Single Audit Act, also requires the use of GAGAS.

1.6 Auditors need to be alert to other laws, regulations, or other authoritative sources that could require the use of GAGAS. For example, state and local laws and regulations may require auditors at the state and local levels of government to follow these standards. Also, the terms of an agreement or contract may require auditors to comply with GAGAS. Federal audit guidelines pertaining to program requirements, such as those issued for Housing and Urban Development and Student Financial Aid programs, may require that GAGAS be followed.

1.7 Even if not required to do so, auditors would find it useful to follow GAGAS in performing audits of federal, state, and local government programs as well as in performing audits of government assistance administered by contractors, nonprofit entities, and other nongovernment entities. Many audit organizations not formally required to do so, both in the United States and in other countries, voluntarily follow GAGAS.

1.8 Auditors may provide professional services, other than audits and attestation engagements, that consist solely of gathering, providing, and explaining information requested by decision-makers or by providing advice or assistance to management officials. GAGAS are not applicable to these other professional services, which are described more fully in chapter 2. However, providing other professional services may

affect an audit organization's independence to conduct audits, which is discussed in chapter 3.

Relationship between GAGAS and Other Professional Standards

1.9 GAGAS may be used in conjunction with professional standards issued by other authoritative bodies. For example, the American Institute of Certified Public Accountants (AICPA) has issued professional standards that apply in financial audits and attestation engagements. GAGAS incorporate the AICPA's field work and reporting standards and the related statements on the standards for financial audits unless specifically excluded, as discussed in chapters 4 and 5. GAGAS incorporates the AICPA's general standard on criteria, and the field work and reporting standards and the related statements on the standards for attestation engagements, unless specifically excluded, as discussed in chapter 6. To meet the needs of users of government audits and attestation engagements, GAGAS also prescribe additional requirements to those provided by the AICPA for these types of work.

1.10 Other professional standards which may be used by auditors are issued by such bodies as the Institute of Internal Auditors (Codification of the Standards for the Professional Practice of Internal Auditing, The Institute of Internal Auditors, Inc.), and the American Evaluation Association, which has developed guiding principles for evaluators (Guiding Principles for Evaluators, a report from the American Evaluation Association Task Force on Guiding Principles for Evaluators). These other professional standards are not incorporated into GAGAS, but can be used in conjunction with GAGAS.

ACCOUNTABILITY

1.11 The concept of accountability for public resources is inherent in our nation's governing processes. Legislators and other government officials, and the public want to

know whether (1) government resources are managed properly and used in compliance with laws and regulations, (2) government programs are achieving their objectives and desired outcomes, and (3) government programs are being provided efficiently, economically, and effectively. Managers of these programs are often asked to render an account of their activities and related results to legislative bodies and the public.

1.12 Financial audits contribute to making governments more accountable for the use of public resources. The auditor, in providing an independent report on whether an entity's financial information is presented fairly in accordance with recognized criteria, informs users whether they can rely on the information. Financial audits performed in accordance with GAGAS also provide information about internal control and compliance with laws and regulations as they relate to financial transactions, systems, and processes.

1.13 Attestation engagements also contribute to governments' accountability for the use of public resources and the delivery of services. In an attestation engagement, auditors issue an examination, a review, or an agreed-upon procedures report on the subject matter or on an assertion about the subject matter, based on or in conformity with criteria, that is the responsibility of another party. Attestation engagements can cover a broad range of financial or nonfinancial objectives and provide various levels of assurance about the subject matter or assertion dependent upon the user's needs.

1.14 Performance audits also contribute to governments' accountability for the use of public resources and for the delivery of services. The term performance audit is used to include a variety of objectives to meet users' needs. Performance audits provide an independent assessment of the performance and management of government programs against objective criteria or an assessment of best practices and other information. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. The term performance audit is used generically to include work classified by some audit organizations as program evaluations, program

effectiveness and results audits, economy and efficiency audits, operational audits, and value-for-money audits.

1.15 Given the importance and complexity of government programs in providing a variety of public services, auditors are increasingly being called on by legislative bodies and government agencies to expand the variety of performance audits to include work that has a prospective focus or provides guidance, best practice information, or information on issues that affect multiple programs or entities already studied or under study by an audit organization. This work may also include an assessment of policy alternatives, identification of risks and risk mitigation efforts, and a variety of analytical services to aid government officials in performing their responsibilities and stewardship of government resources. Such work, like other performance audits, involves a level of analysis, research, or evaluation; may provide conclusions and recommendations; and results in a report.

ROLES AND RESPONSIBILITIES

1.16 Management and auditors of government programs fulfill essential roles and responsibilities in ensuring that public resources are used efficiently, economically, effectively, and legally. Audit organizations also have the important responsibility for ensuring that auditors can meet their responsibilities. These unique roles involve sound management practices and professional audits and attestation engagements.

Management's Role

1.17 Management entrusted with handling public resources (for example, managers of a state or local governmental entity or a nonprofit entity that receives federal assistance) is responsible for applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established. This responsibility applies to all resources, both financial and physical,

whether entrusted to public officials or others by their own constituencies or by other levels of government.

1.18 Management entrusted with public resources is responsible for complying with applicable laws and regulations. That responsibility encompasses identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance.

1.19 Management entrusted with public resources is responsible for establishing and maintaining effective internal control to ensure that appropriate goals and objectives are met; resources are received, used efficiently and effectively, and safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed. Management is responsible for providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs.

1.20 Management is responsible for addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations.

1.21 Management is responsible for following sound procurement practices when contracting for audits and attestation engagements, including procedures for monitoring contract performance, need to be in place. The objectives and scope of the assignment need to be made clear. In addition to price, other factors that may be considered in evaluating bid proposals include the responsiveness of the bidder to the request for proposal; the experience of the bidder; the availability of the bidder's staff who have the appropriate professional qualifications and technical abilities; and the results of the bidder's peer reviews.

Auditors' Responsibilities

1.22 Auditors in discharging their professional responsibilities need to observe the principles of serving the public interest and maintaining the highest sense of integrity, objectivity, and independence. These principles are fundamental to the responsibilities of auditors and the auditing profession.

1.23 Auditors are responsible to accept the obligation to act in a way that will serve the public interest, honor the public trust, and uphold their professionalism. A distinguishing mark of a profession is acceptance of its responsibility to the public. This responsibility is critical when auditing in the government environment. Because the concept of accountability underlies GAGAS, this need to serve the public interest is essential for all work done in accordance with GAGAS.

1.24 Auditors need to make decisions that are consistent with the public interest in the program or activity under audit. The public interest is defined as the collective well-being of the community of people and entities the auditor serves. In discharging their professional responsibilities, auditors may encounter conflicting pressures from management of the audited entity, various levels of government, employers, and others who rely on the objectivity and independence of the auditors. In resolving those conflicts, auditors are responsible to act with integrity, guided by the precept that when auditors fulfill their responsibilities to the public, these individuals' and organizations' interests are best served.

1.25 To maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest sense of integrity. Auditors are responsible to be honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle. Integrity requires auditors to

observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment. Integrity also requires auditors to observe the principles of objectivity and independence.

1.26 Auditors are responsible to maintain objectivity and be free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible to be independent in fact and appearance when providing audit and attestation services. Objectivity is a state of mind that requires auditors to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may in fact or appearance impair an auditor's objectivity in performing the audit. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities and public responsibility.

1.27 In applying GAGAS, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

1.28 Auditors are responsible for helping management and other report users understand the auditors' responsibilities under GAGAS and other audit coverage required by law or regulation. To help managers and other report users understand an audit's objectives, time frames, and data needs, auditors need to communicate information concerning the planning, conduct, and reporting of the assignment to the parties involved.

Audit Organizations' Responsibilities

1.29 Audit organizations also have the responsibility for ensuring that (1) independence and objectivity are maintained in all phases of the assignment, (2) professional judgment is used in planning and performing the work and in reporting the results, (3) the work is performed by personnel who are professionally competent, and (4) their systems of quality control are periodically examined by independent peers to ensure that they have in place appropriately designed policies, procedures, and practices that are functioning effectively to meet professional standards.

1.30 While management is responsible for addressing audit and attestation engagement findings and recommendations and tracking their status of resolution, audit organizations are responsible for establishing policies and procedures for follow-up to determine whether previous findings and recommendations are addressed and are considered in planning future assignments.